PAT STRACHOTA

STATE REPRESENTATIVE

May 1, 2007

Testimony by Representative Pat Strachota in Favor of AB 213

Thank you Chairman Townsend for holding a hearing on AB 213 today. I will be testifying with Representative Petersen and Senator Roessler. I will give you a brief explanation of the Long Term Care Partnership Program and an overview of Wisconsin's history with this program.

The Long-Term Care Partnership (LTCP) Program was developed in 1987 as a demonstration project. As part of the project, four states – California, Connecticut, Indiana and New York developed Long Term Care Partnership programs.

Long Term Care Partnership Programs are designed to encourage people who might otherwise turn to Medicaid to finance their long-term care to purchase a private long term care policy.

Consumers who purchase such policies are insured for long-term care up to a pre-set dollar level through the private insurer. Once the private insurance is exhausted, they can continue their long-term care under Medicaid and are then allowed to exempt assets equal to the amount of the long term care policy when determining Medicaid eligibility.

AB 213 requires the Department of Health and Family Services to submit to the Department of Health and Human Services an amendment to the state's Medicaid plan that satisfies the requirements of the Long Term Care Partnership Program under federal law. If the amendment is approved, DHFS must disregard, for purposes of Medicaid eligibility and estate recovery, the amount of qualifying long-term care insurance payments made to an individual who receives Medicaid for long-term care.

In 1993, the federal government passed language saying states were no longer allowed to disregard estate assets from recovery unless the practice had been approved as of May 14, 1993. However, the 2005 Deficit Reduction Act now allows all states the option to pass Long Term Care Partnership Programs.

Ten states have already submitted Plan Amendments and eight of those have been approved. It is estimated that at least 25 states will pursue Partnership Programs in the next few years.

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AB 213 is not the first time the legislature has directed the Department to participate in this program. In July 1987, the state legislature asked the Department of Health and Social Services to design a partnership between state government and private insurers that would promote the availability within the state of innovative private insurance for long-term care.

Unfortunately, several factors slowed down the waiver seeking process such as the need to allocate a greater proportion of the administrative resources of DHSS to immediate cost containment within numerous programs and the departure of a key employee who could not be replaced due to state hiring restrictions. In 1991, DHHS decided that the constraints on resources would prevent the department from providing the support for the implementation of the program and the project was ended.

We recognize that in 2007 we still face budget challenges and the Department has requested money to redesign the database and hire additional staff. The costs to do this will be split between federal and state dollars.

In 1988 and in 1990 Wisconsin received both a planning and pre-implementation grant from the Robert Wood Johnson Foundation to assist in the costs of preparing the original Medicaid waiver request.

Later this month, the Foundation will be awarding grants to ten states to assist with submitting their Medicaid plan amendments. While the first ten grants have already been awarded, we are hopeful that if AB 213 is signed into law Wisconsin would be competitive in seeking financial assistance from the Foundation again.

The fiscal estimate is extremely conservative in estimating projected savings to the state. However, you will hear testimony today outlining what some of the original four Partnership states have saved in the last twenty years and what other states who are looking to start Partnership programs are projecting saving. Those dollar amounts far exceed the estimate by DHFS and I am confident that we would see similar savings.

Passing a Long Term Care Partnership program will save the state's Medicaid program dollars while allowing people to hold on to their hard earned money. This is a win-win for both the state and consumers.

I urge the committee to support AB 213.

Testimony in Support of:

Assembly Bill 213
Relating to a Long-Term Care Partnership Program

Before the Committee on Aging and Long Term Care

May 1, 2007

Presented by

Rod Perkins
Chair, AHIP/ACLI Partnership Implementation Working Group

Thank you for the opportunity today to provide testimony on A.B. 213. I am Senior Government Relations Manager for the Long Term Care Division of Genworth Financial, a leading provider of Long Term Care Insurance. However today I am offering this testimony on behalf of the insurance industry and our two national trade organizations, The American Council of Life Insurers and America's Health Insurance Plans, both of whom strongly support A.B. 213 which establishes a Long Term Care Insurance Partnership Program in Wisconsin under the provisions of the federal Deficit Reduction Act of 2005 (DRA).

The DRA removed restrictions created by The Omnibus Budget Reconciliation Act of 1993 (OBRA 93) that limited states' ability to implement long term care Partnership programs. Prior to the federal restrictions put in place through OBRA 93, four states, California, Connecticut, New York, and Indiana established operational Partnership programs in the early 1990s. With the enactment of the DRA, all states are now free to pursue these public-private partnership programs.

Originally funded by the Robert Wood Johnson Foundation the long term care Partnerships bring together government and private industry resources to provide an incentive for individuals to obtain private long term care insurance coverage to fund their long term care rather than relying on state and federal resources. The Partnerships allow consumers to purchase a long term care insurance policy the benefits of which, once utilized, provide a dollar-for-dollar asset disregard with respect to Medicaid eligibility and estate recovery. Experience in the four original programs demonstrated that this incentive results in more individuals turning to private long term care insurance coverage. In the unlikely event an individual utilizes the benefits of their long

term care insurance policy and still needs assistance from the state, they are able to qualify for Medicaid assistance without having to become financially destitute.

The need for innovative solutions such as the Partnership programs that help individuals prepare and plan for their long term care is greater than ever.

In a recent national survey conducted by Public Opinion Strategies, 65 percent of Americans admit to having made no long term plan for themselves or a spouse. The average annual cost for a private room in a nursing home is now over $70,000, yet few Americans have saved the money necessary to pay for such care. Medicare is not intended to cover the majority of long term care expenses, and in order to qualify for government assistance through the Medicaid program, individuals must demonstrate financial need by spending down their assets.

The experience of the original four state Partnership programs has shown that Partnerships work.

Partnerships have resulted in increased sales of private long term care insurance. More than 30% of policyholders in a recent survey reported that they would not have purchased long term care insurance without the Partnership program. Partnerships provide a viable solution for those who take responsibility to plan for their long term care. According to a report issued by the Congressional Research Service, in the four existing Partnership states, a range of 15 to 30 percent of consumers reported that they purchased Partnership policies as an alternative to transferring assets to qualify for Medicaid.

Partnership programs can significantly ease the burden on state Medicaid budgets. Partnerships do not create a new path to Medicaid, but rather can result in significant state Medicaid savings as more consumers turn to private insurance. In a report by the Connecticut Partnership to the state's General Assembly, the state projected that ten years from now the Partnership could result in annual Medicaid savings of 6.8%, or approximately $140 million per year in 2005 dollars. In the existing four state Partnership programs, of the over 211,000 Partnership policies sold, only about 119 individuals accessed the Medicaid system. According to the Government Accountability Office report, "the number of Partnership policies purchased each year has increased significantly since the programs began in the early 1990s which suggest that the long term care Partnership program is succeeding in eliminating some participants' need to access Medicaid."

Wisconsin can now establish a long term care Partnership program by filing an amendment to the State's Medicaid Plan with the Centers for Medicare and Medicaid Services of the United States Department of Health & Human

Services. The state has already taken some important steps toward implementing a Partnership program with the introduction of A.B. 213. We encourage the state to continue its efforts to implement a Partnership program by filing a State Medicaid Plan Amendment.

The establishment of a long term care Partnership program in Wisconsin will raise awareness about long term care issues, and will send a strong message that the state is committed to helping Wisconsin residents prepare and plan for their future.

On behalf of the private LTC insurance industry, we look forward to continuing to work with you to ensure a successful Partnership program.

Thank you.

Testimony of
Vaughn L. Vance
Director of Government Relations
WEA Insurance, Inc.

To
ASSEMBLY COMMITTEE ON AGING AND LONG TERM CARE
May 1, 2007

Mr. Chairman and members, thank you for the opportunity to appear at today's hearing. My name is Vaughn Vance and I am Director of Government Relations for the WEA Trust, a not-for-profit organization that provides insurance benefits to public school employees and their families throughout the state.

Protecting the financial security of our members has been the Trust's core mission since it was founded in 1970. To that end, we offer health, dental, life, long term disability, short term disability, and since 1991, long term care insurance protection. The WEA Trust supports Assembly Bill 213 as an additional tool to help further our mission of protecting the financial well-being of our members.

Long Term Care Insurance
All families, including public school employees, are likely to require long term care at some point in their lives. Of people aged 65 or older, 70% will need long term care services (Roper Study released by the American Society on Aging, May 23, 2003). However, long term care needs are not exclusive to the elderly; in fact, 40% of Americans who receive long term care are working age adults between the ages of 18 to 64.

The costs of long term care services are a significant threat to the financial well-being of our members. In Wisconsin, the average cost of nursing home care is over $64,000 a year (DHFS, January 1, 2006)—and that cost is on the rise.

WEA Trust Long Term Care Products
The WEA Trust currently provides long term care insurance protection to 96 school districts and nearly 35,000 individuals throughout Wisconsin. The vast majority of our members who have purchased long term care (LTC) insurance are covered by our group LTC insurance plan. This plan currently provides members with daily benefits of 75% of eligible costs up to $208.32 for nursing facility care, home health care, alternate care facility, adult day care and hospice care; respite care costs of up to $103.43 per day are also covered. Our group LTC plan includes inflation protection, which increases those dollar amounts by 5% each year. The group LTC plan also includes waiver of premium and a paid-up feature. Group coverage is offered to employees without the typical underwriting process. The Trust also offers an individual LTC product with similar coverage options for long term care costs.

Assembly Bill 213
This legislation is an important incentive for individuals who have not purchased long term care insurance to do so. The high costs of long term care services threatens the financial security of our members and other families who have worked hard to save for retirement. The high costs associated with long term care also threaten our state's financial well-being through skyrocketing Medical Assistance costs that will only continue to increase as our population ages.

Assembly Bill 213 provides an incentive that would benefit countless Wisconsin families and could potentially save the state scarce resources for our Medical Assistance program. **The WEA Trust urges you to support this legislation.**

For additional information, please contact:
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Basic Facts About the WEA Trust Group Long Term Care (LTC) Insurance Plan

- The group LTC plan provides benefits for those who need direct or supervisory assistance due to the loss of functional capacity to perform at least three of these activities of daily living:

  - Eating
  - Dressing
  - Bathing
  - Transferring
  - Continence
  - Toileting

  Note: A person who suffers from Severe Cognitive Impairment (e.g., Alzheimer's disease) qualifies automatically.

- The group LTC plan covers custodial care (care that is generally **not** covered by a medical plan).

  - Nursing home
  - Skilled care facility
  - Home care
  - Adult day care
  - Respite care

- The group LTC plan covers active employees (except those who already suffer from a functional incapacity), spouses (who meet standards of insurability), and future retirees.

- Members who are 55 or older can continue the group LTC plan after retirement.

- The group LTC plan includes waiver of premium and paid-up features.

- The daily benefits are 75% of specified dollar amounts. The current maximum daily benefit amount is $208.32* for nursing facility care, home health care, alternate care facility, adult day care, and hospice care; respite care is a maximum of $103.43* per day. The group plan includes inflation protection, which increases those dollar amounts by 5% on September 1 of each year.

- The current maximum lifetime benefit per person is approximately $311,840. This benefit also includes inflation protection.

- The current premium per month for employee or employee and spouse is:

  - **$54.60**** if the district participates in the WEACare Lifetime Protection Package plan (health, life, LTD, and LTC).
  - **$58.90**** if the district has the WEACare II Package plan (LTD and LTC).
  - **$63.10**** if LTC is a freestanding plan.

**Benefit amount effective 9/1/2006 through 8/31/2007.*
***Rate effective 7/1/2007.*

State of Wisconsin
Department of Health and Family Services

Jim Doyle, Governor
Kevin R. Hayden, Secretary

May 1, 2007

TO: Assembly Committee on Aging and Long Term Care
FROM: Katie Plona, DHFS legislative liaison
RE: Assembly Bill 213

Thank you Representative Townsend and committee members for the opportunity to testify before the committee today on Assembly Bill 213. I am testifying today for information only and primarily to explain how this legislation would affect the Medicaid program and people who may become eligible for Medicaid.

I want to first say that DHFS supports efforts to help consumers support their long-term care needs and believes it is very important to find ways to alleviate the cost burden associated with long term care coverage to the Medicaid program.

As part of this effort, one of the department's top priorities is the expansion of Family Care to manage the costs of each individual's long-term care to meet their specific needs and eliminates waitlists that currently exist in non-Family Care counties for community-based waivers.

Assembly Bill 213 would require DHFS to amend the Medicaid state plan to establish a LTC Partnership program, as authorized by the Deficit Reduction Act of 2005.

Four states – California, Connecticut, Indiana and New York – implemented LTC Partnership programs as demonstration projects funded by the Robert Wood Johnson Foundation between 1992 and 1994 following approval by the Centers for Medicare and Medicaid Services (CMS). At the time, other states were prohibited from implementing additional LTC Partnership programs. With passage of the Deficit Reduction Act, many other states have or are taking action to establish LTC Partnership programs.

DHFS' main concern with the LTC Partnership program is that there is no clear evidence that the program in the original four states has successfully reduced Medicaid expenditures or helped many individuals who may have become eligible for Medicaid.

The GAO report (GAO-05-1021R) on LTC Partnership programs in the four pilot states shows no definitive evidence that Medicaid savings are generated by diverting individuals from Medicaid using LTC insurance products. In fact, it appears as though few individuals who have purchased this insurance have needed it.

For example, data from California and Connecticut shows that roughly 75 percent of policyholders had liquid assets greater than $225,000 and that 25 percent of policyholders had liquid assets less than $225,000. Therefore, only about a quarter of the policyholders are likely to save the Medicaid program funds and only when they exhaust their Partnership benefits. We believe that those who can afford LTC insurance will buy it with or without the preferred access to Medicaid. The majority of purchasers in California, Connecticut, and Indiana had assets in excess of $350,000. This is not the average Medicaid applicant.

Through mid-2006, roughly 250,000 Partnership policies had been purchased in the four pilot states, but fewer than 4,000 of those policyholders had claimed benefits and only 175 had enrolled in Medicaid after exhausting their Partnership policy benefits. The length of time between when a consumer purchases a policy and when the consumer accesses the policy, it is difficult to assess the impact the Partnership program has had or will have on consumers and on Medicaid programs.

To formulate its fiscal estimate and project the impact of an LTC Partnership program in Wisconsin, the department used research from the four pilot states.

AB 213 would require DHFS to enact several administrative measures. This includes processes that inform consumers and that modify Medicaid eligibility requirements. DHFS expects that a Partnership program would increase department workload and county workloads relating to eligibility processing system costs and Estate Recovery Program collections. These would be required under the terms of the LTC Partnership program outlined by the federal government.

For these reasons, DHFS asks the committee to include in AB 213 a position and funding to support an LTC Partnership program director to implement all of the functions outlined in the bill and to coordinate with OCI and local agencies. Additionally, there would be a one-time cost of $500,000 All Funds to DHFS to modify existing Medicaid eligibility automated systems.

Based on a 12-year history with Partnership in the pilot states and the size of Wisconsin's population, DHFS estimates that roughly 21,000 individuals would purchase policies between 2008 and 2020.

Based on experience in other states, including the amount of assets that the average policyholder had, DHFS estimates that 81 individuals would access their Partnership policy benefits and potentially enroll in Medicaid at a later date than they otherwise would have. Over 12 years, this would result in a savings to Medicaid of roughly $4 million. This number incorporates state and federal funds. In the same period, administrative costs to DHFS would be roughly $2.2 million. This also incorporates state and federal funds.

In terms of General Purpose Revenue, by 2020, the cumulative savings to Medicaid would be $1.7 million and the administrative cost to DHFS would be $1.1 million, resulting in an average annual savings of approximately $50,000. In its early years, the Partnership program would incur administrative costs and generate no savings because people will not have started to access their benefits.

Additionally, if Wisconsin were to establish an LTC Partnership program, DHFS strongly recommends thorough education to consumers to make sure that only people who would benefit from Partnership policies purchased them.

In summary, DHFS cautions the committee from viewing LTC Partnership programs as a comprehensive approach to addressing the long-term care needs of people in Wisconsin and to generate savings to the Medicaid program. We also encourage the committee to address some of the administrative costs inherent in a Partnership program to make such a program successful in Wisconsin.

Thank you again for the opportunity to provide the department's perspective on Assembly Bill 213.

$1.6 04,000 over 12 yrs = $50,000/yr SVGP

My name is Jim Harbridge and I'm here with Laura De Golier. We are Insurance Agents from Fond du Lac and Constituents of the Chairman John Townsend.

We're here to encourage you to implement a Partnership LTC Program in Wisconsin.

As you may know, there were four states in 1994 that implemented the LTC Partnership Program, California, Connecticut, New York and Indiana. To my knowledge five additional states have since adopted the LTC Partnership Program, Idaho, Minnesota, Nebraska, Virginia and Florida.

I've been working with families and their loved ones providing LTC Planning and selling LTC Insurance since 1990. Laura has been providing Insurance Services since 1979.

I've worked with various entities such as Mercury Marine, Fond du Lac County, Agnesian HealthCare, J.F. Ahern Company, Fond du Lac Regional Clinic to name a few.

The way I work with both Business's and individuals is thru education. This education is needed to dispel certain myths and fallacies concerning LTC. I often use 3rd party articles.

Does anyone here have an LTC Insurance policy or have they had a loved one who has needed LTC?

Our goal today is to educate you on reasons people buy LTC Insurance, myths and fallacies concerning LTC, the risk associated with needing LTC, future costs as it relates to Wisconsin's current citizens, plan design options, and to give you information on the current Partnership Plans and their successes in the current States.

Why do people buy LTC Insurance?

- **I would like to maintain my financial independence**
- **I don't want to be a burden on my family**
- **A LTC Plan would give me peace of mind**
- **I want to preserve my assets to leave an inheritance**
- **I want every opportunity to stay in my own home**
- **I want to be in control as long as possible**
- **I don't want to see all my assets used to pay for care in the last years of my life**
- **If I need a nursing home I want to be able to choose**
- **Asset Planning with 2nd marriages require LTC**

What are the myths and fallacies concerning LTC?

- **Is LTC about Nursing Homes only- only 18% of LTC is provided in Nursing Homes**
- **Who needs LTC- 40% is for care for people under the age of 65 yrs. (Example would be Christopher Reeves)**
- **What is the cost of LTC and are there certain high cost areas in this country-Nursing Homes $62,000 /$140,000 per year, Assisted Living $30,000 per year, Home Care $65,000/ $98,000 per year (Theses are average prices from 2002)**
- **Who pays for LTC- 42% Medicaid, 15% Medicare, 25% Individuals, 12% Private Insurance, 6% Other**
- **Does Private Health Insurance or Medicare cover LTC Needs- skilled care only**
- **How long does Medicare pay- up to 100 days- the average number it pays is 23 days**
- **What does it take to qualify for Medicaid**
- **Does divesting your assets make any sense- lose control, costs basis, divorce, misuse of funds, etc**

What are the risks associated with needing LTC does it make any sense to purchase LTC Insurance

- **1 in 1200 chance of losing everything in a house fire (but surely your home is covered)**
- **1 in 240 chance of major auto accident (but you would not drive without auto insurance)**
- **50% chance that you will need some LTC at some point in your life (so doesn't it make sense that you should insure this greater risk)**
- **Check the obituaries in your local newspapers**

The future costs to Wisconsin's current citizens

- **Assuming today's costs for a nursing home are $60,000 per year and the average stay is 2.4 years, and that one out of two people would need care, and these costs would increase at 5% per year, for a 60 year old couple who may need care when they reach age 90, the cost would be over $576,000**
- **How many Wisconsin residents can afford $576,000**
- **How long can the State of Wisconsin afford $576,000**

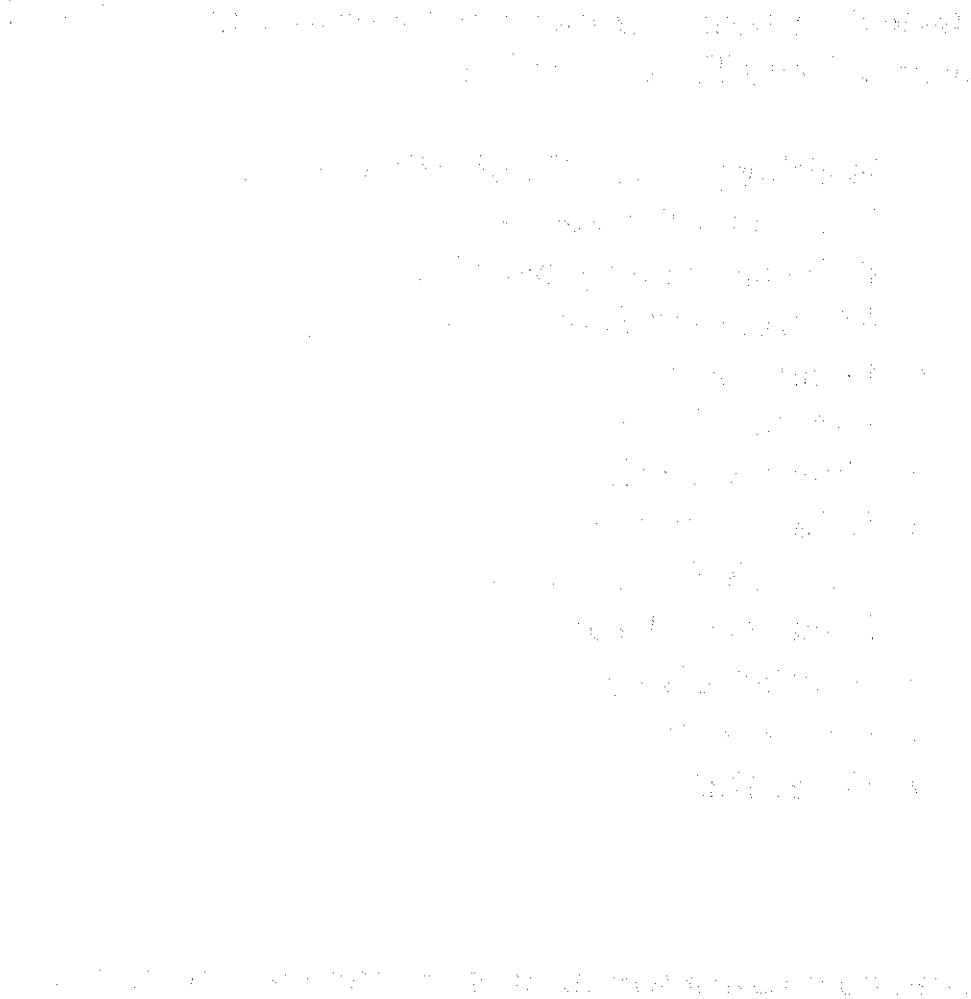
The goal of the partnership program is to insure Wisconsin citizens who have homes and assets that range from $100,000 to possibly $1,000,000

- **Taxpayers will always need to take care of the poor**
- **Wealthy will self-insure**
- **The partnership program will transfer the risk from the State of Wisconsin to private insurance companies**

Basic Plan Design Options and how an Agent helps clients select a Long Term Care Plan

- **Waiting period / Elimination period** > typical: 30 or 90 day.
  Example 7 days-365 days
- **Daily or Monthly benefits**
  Example $50-$500 per day > typical = $200/day
- **Benefit period**
  Example 1 year-unlimited
- **Shared care riders**
- **Inflation Protection**
  Example 5% compound > so, benefit doubles every 14.4 years
- **Home Health care**
- **Assisted Living** > most policies cover.
- **Cash benefits**
- **Other Riders**

And now Laura will discuss the current partnership plans.



In summary, education is key! In my opinion, when you consider the various reasons that people purchase LTC Insurance

- **I would like to maintain my financial independence**
- **I don't want to be a burden on my family**
- **A LTC Plan would give me peace of mind**
- **I want to preserve my assets to leave an inheritance**
- **I want every opportunity to stay in my own home**
- **I want to be in control as long as possible**
- **I don't want to see all my assets used to pay for care in the last years of my life**
- **If I need a nursing home I want to be able to choose**
- **Asset Planning with 2nd marriages require LTC**

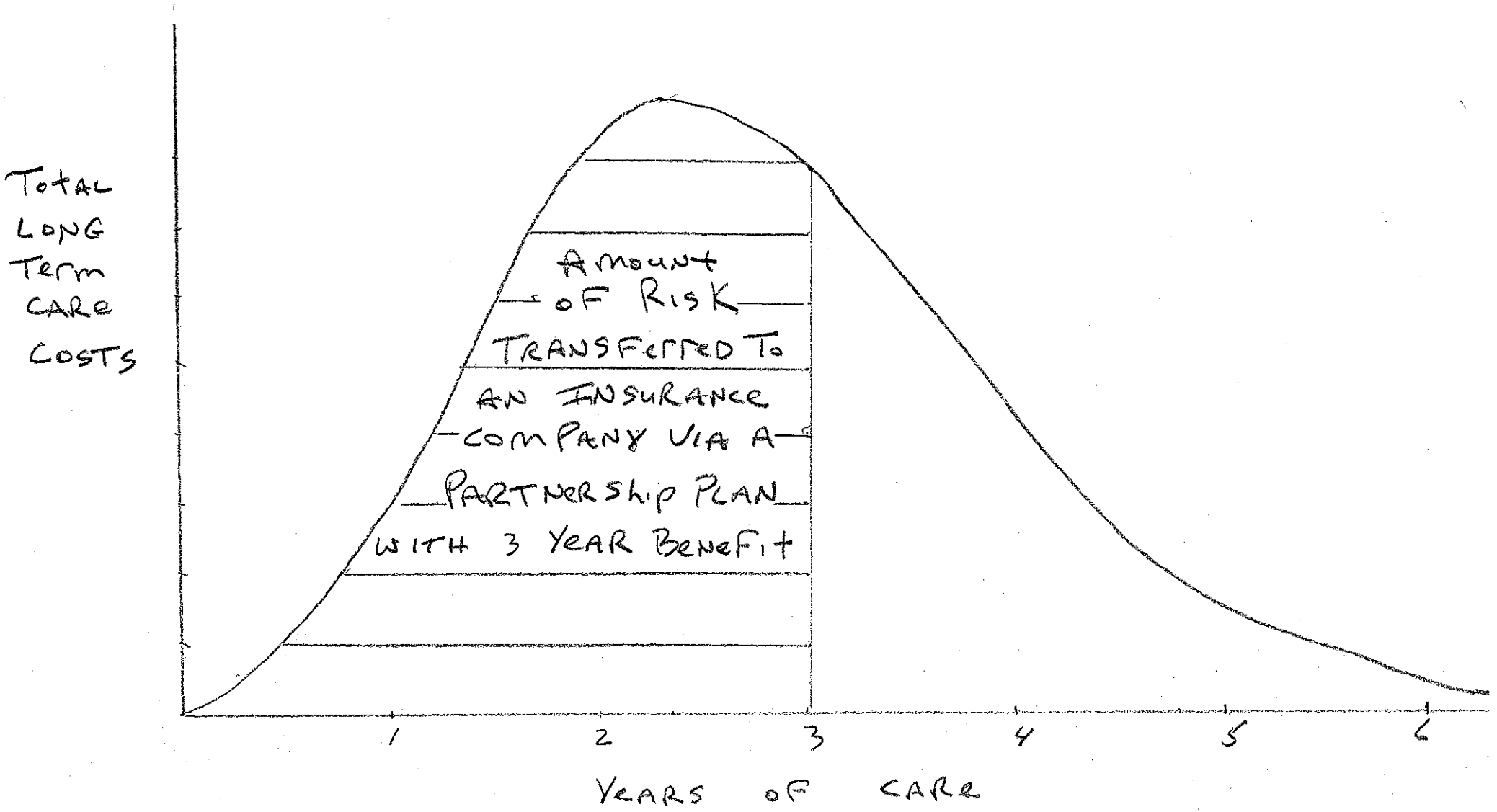
A partnership program fits in well with these motivating factors.

The needy will still need assistance.

The wealthy will buy LTC or self-insure.

It's the middle class that this partnership program will work well with via education.

City, County and State employees, Nurses, Factory workers, Teachers, Union Members, Small Business Owners, Farmers and many occupations constitute Wisconsin's Middle Class.

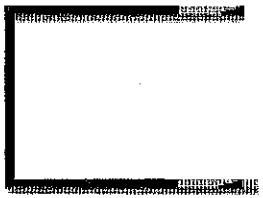

Total Long Term Care Costs
Amount of Risk Transferred To An Insurance Company Via A Partnership Plan With 3 Year Benefit
1
2
3
4
5
6
Years of Care

I urge you to grandfather all previously written LTC Insurance programs and/or allow for policy exchanges written prior to the final adoption of Wisconsin's Partnership Program.

Thank you,

Jim Harbridge and Laura DeGolier

Laura DeGolier



The Robert Wood Johnson Foundation
Partnership for Long-Term Care
University of Maryland Center on Aging

Partnerships for Long-Term Care Insurance

Mark R. Meiners, Ph.D.
George Mason University
Center for Health Policy, Research & Ethics

What is LTC insurance?

- Basically it is coverage of nursing home and home and community care services at both the skilled and custodial level of care - a hybrid of health, disability, and life insurance.
- Like health it covers health related needs, typically on fee for services basis
- Like disability it covers when a long-term disabling functional or cognitive impairment, sometimes with monthly cash payments.
- Like life insurance (whole life) its covers something needed in more distant future that depends on prefunding and the buildup of reserves.

Partnership for Long-Term Care

- Merge private insurance with Medicaid.
- Require high-quality insurance products.
- Encourage short-term comprehensive coverage.
- Alter Medicaid eligibility rules as incentive (asset protection).
- Four States operational (CA., CT., IN., NY)

Partnership Features

- Inflation Protected Quality
- Balance cost/quality trade-off
- Consumer education campaigns.
- Uniform reporting for insurers.
- Asset Protection models:
  - -- Dollar for dollar
  - -- Total assets
  - -- Combo of these

Asset Protection Incentive - $dollar-for-dollar$

Assets	*Insurance*	*Spend-down*	*Protection*
$100k	$100k	none	$100k
$200k	$150k	$50k	$150k
$500k	$300k	$200k	$300k

Simple Messages

- Partnership increases the value and decreases the cost.
- Partnership doubles the size of the potential market.
- Provides a straight-forward criteria for helping consumers purchase protection.

Lessons Learned

- Make It Simple
- Agents as Partners
- Comparability to Non-Partnership Policies
- Focus on Younger Purchasers
- Estimated savings to Medicaid in CA, CT, IN to date $8-10 Millon

Little Asset Protection is Used

97,500 Partnership insureds in CA, CT & IN (NY data NA) have received $23.7 KK in LTCi benefits

- Only 44 of them have qualified for Medicaid

Protected assets might pass on to spouse, who might then use those assets for LTC

Working Assumptions:

- Medicaid's pay-as-you-go financing cannot accommodate likely growth in demand
- There is no "silver bullet" program (public or private)
- Baby boomers who have resources should be encouraged to pre-fund
- Consumer awareness and expanded financing options are better than punitive measures

Summary

- If Medicaid is to continue to be available for poor persons, those with resources need to pre-fund their long term care
- Before this can happen we need:
  - Increased awareness among retirees, pre-retirees and society in general
  - New financing options designed to maximize flexibility and consumer control
  - An evolving sense of how public and private sources of funding can best be coordinated to align incentives for pre-funding

If Not Partnership……

If states are not allowed to address the issue on the front end, they may be forced (again) to constrain costs on the back end:

- Waivers to end "half-a-loaf"and other transfers
- KY ends "homestead exemption"
- WA lowers Medicare spousal allowance
- Increased estate recovery
- Waiver caps - lower reimbursements

Elder Law Section Board

State Bar of Wisconsin
Wisconsin Lawyers. Expert Advisers. Serving You.

Assembly Committee on Aging and Long Term Care
Testimony For Information Only on AB 213
May 1, 2007
Betsy Abramson, Advisor, State Bar of Wisconsin Elder Law Section

The Elder Law Section of the State Bar of Wisconsin appreciates the opportunity to provide information as the Assembly Committee explores solutions to the crisis in funding for long-term care. We also thank Rep. Strachota for meeting with us last week to discuss this proposal.

Impoverishment is the likely fate of almost anyone who needs long-term care for any extended period of time. When the costs exceed the ability to pay, Medicaid becomes responsible. For over 40 years, since Medicaid's creation, this scenario has created limitless resentment. Seniors and their families resent the forced poverty and Medicaid resents any attempts by individuals to preserve any assets. Clearly, creative new solutions are warranted. And yet, we cannot support this proposal at this time.

Our concerns with this proposal fall into largely two categories. First, we believe that the long-term care insurance industry is still too young to be considered a viable, reliable funding source for long-term care. The majority of our clients either cannot afford long-term care insurance or do not qualify for it (i.e., health underwriting makes them ineligible) so that we do not have adequate experience to know whether it is viable. In addition, there is no good data either in Wisconsin or in any of the states currently operating Long Term Care Insurance Partnership programs to have any confidence that it is a reliable form of insurance that will either pay out benefits or decrease the role of Medicaid.

Second, the Partnership proposal, while laudable in its attempt to assist in seeking alternative financing methods and enabling individuals to preserve some assets is inequitable in its operation; only those who can afford, qualify and whose insurance company pays out benefits, will be able to preserve any assets and still qualify for Medicaid. (See examples on back.) There are already too many inequities in our long term care system, for example: (a) continuing institutional bias; (b) recovery from estates and liens only for individuals who need long-term care; (c) a minority of counties with the comprehensive Family Care benefit; (d) waiting lists for home and community-based long-term care services; and (e) Medicaid coverage for nursing homes but not for smaller, less expensive group homes.

The Elder Law Section is eager to work with your committee in exploring workable solutions to the long-term care financing crisis in Wisconsin.

State Bar of Wisconsin
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DISPARATE IMPACTS OF LONG TERM CARE PARTNERSHIP

Harry is 87, with mid-stage Alzheimer's and Parkinson's Disease. He entered a nursing home with $150,000 in assets and a long-term care insurance policy that qualified for the Partnership. He paid $100,000 in monthly nursing home bills in addition to his insurance policy's benefits. He was able to retain $50,000 and pass it to his adult children and grandchildren at his death while qualifying for Medicaid.

Larry is same age, diagnoses and assets. His income was too low to be able to afford long term care insurance premiums however, so when he entered the nursing home, he had to spend down all of his assets from $150,000 to $2,000 before he qualified for Medicaid, leaving his heirs nothing.

Mary is same age, diagnoses and assets. She applied for long-term care insurance in her mid-60's, but her older sister and father's Alzheimer's disease diagnosis precluded her eligibility for long-term care insurance. Denied insurance, she entered the nursing home like Harry and Larry and spent down all of her assets from $150,000 to $2,000 before she qualified for Medicaid, leaving her heirs nothing.

Terri is same age, diagnoses and assets. As her condition worsened, her daughter Donna moved back to Wisconsin from Ohio, giving up her job and home to help care for her mother. When her mother started wandering at night and her care became too much for Donna to handle, she entered a nursing home. She had to spend down all of her assets, from $150,000 to $2,000 before she qualified for Medicaid, leaving Donna nothing.

Barry is same age, diagnoses and assets. Barry's family worked to keep him home as long as possible. They signed him up for the Community Options Program but his name did not move up on the waiting list and in the meantime, Barry's family took turns staying with him overnight and hiring home care agencies to care for him. He spent all of his assets on home care and his name still did not reach the top of his waiting list. When his money ran out, he entered a nursing home and went on Medicaid with only $2,000 left. He could leave his heirs nothing.

Sherry is same age, diagnoses and assets. She took out a reverse mortgage to pay for all of her care at home. When she exhausted all of the equity in her home, she entered a nursing home and spent down all of her assets until she had only $2,000 left. She could leave her heirs nothing.

Jerry is same age, diagnoses and assets. He bought a long-term care insurance policy. When he filed his first claim, the company said that had they known his family history of Alzheimer's, they would not have issued the policy and denied all coverage. Jerry spent down all of his assets until he had only $2,000 left. He could leave his heirs nothing.

STATE OF WISCONSIN
BOARD ON AGING AND LONG TERM CARE
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Madison, WI 53704-4001
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Testimony
Before the Assembly Committee on Aging and Long Term Care
1 May 2007

Chairman Townsend, members of the Committee, Good Morning. I am William Donaldson, Counsel to the State of Wisconsin Board on Aging and Long Term Care. I appear this morning to present information that the Board has gathered about AB 213.

The Board on Aging and Long Term Care takes no position on the merit of AB 213 at this time. We are continuing to research the topic, to discuss our concerns with the bill's authors and with other interested agencies and parties and we will likely announce a formal position in the near future. I am speaking at this time for information only.

That having been said, we do urge the Committee to exercise caution and to dig deeply into the issues presented by this proposal before making a judgment. The experience of the four states that have been piloting the LTC Partnership Program has been well-documented and can provide some very interesting information to guide your deliberations.

A 2005 report of a study done by the George Washington University School of Public Health and Health Services indicates, as a base for their analysis, that over the period from the beginning of the pilot program in 1993 through December, 2003, a total of 180,531 qualified policies were purchased in the four pilot states (California, New York, Indiana, and Connecticut). Of these policies, 2,057 resulted in benefits being paid to the holders by the insurers and a total of 89 of the policyholders applied for or received Medicaid services.

The study authors report that the majority of persons who purchased these policies were individuals of upper middle-class economic status, with an average level of personal assets (other than a home) exceeding $350,000. The asset figure was somewhat higher in New York due to the structure of that state's Partnership Program. The authors believe that, "because the Partnership policies have been more attractive to higher-income people, they may not be reaching those most likely to spend down to Medicaid." [GWU Report, pg.6]

It would seem reasonable to project that a person with assets of that magnitude would likely have a retirement income in excess of the threshold for Medicaid eligibility. Despite being able to "shelter" a portion of their assets, this individual would probably not be a Medicaid beneficiary even after exhausting the plan's benefits. This does not even take into consideration the functional eligibility criteria for MA. The issue of assuring a suitable match between product and purchaser should be a primary concern of the regulators who prescribe training for and oversee agents selling these policies.

I recently engaged in a face to face conversation with a legal advocate for consumers in New York. It was this lawyer's opinion that his clients of modest means were not particularly benefited by having this plan available. He considered it a benefit more to the insurance companies than to the potential users of Medicaid. This is because most of the policyholders, in his experience, will not likely become Medicaid beneficiaries whether or not they have a Partnership Plan Policy.

The Board has concerns about the basic provisions of AB 213 as applied to Wisconsin insurers. As currently written, it requires OCI and DHFS to "develop training" for agents who will be selling this product. I can see no provision in the bill, however, that would require the agent to actually take this training. We assume that agents who sell LTC Partnership Policies be subject to the same licensing and regulations that an agent selling an ordinary LTC plan must comply with. Will the agents be required to complete specific training and be certified before being permitted to sell this product? Will the LTC Partnership Plans, themselves, be subject to the same scrutiny and regulation as are private plans, or will the fact that they are a hybrid of state and federal regulation influence the degree of oversight?

These concerns are partially stimulated by the experience of the Board's Medigap Helpline staff in responding to the many inquiries and complaints we have received from persons who have been subjected to overly insistent and questionable marketing practices by agents selling Medicare Advantage Plans. These plans are another effort by the federal government to blend a federal program with the private insurance market. The companies employing these agents are often outside the control of Wisconsin's insurance regulators and the agents appear to feel free to act with impunity. Complaints about their actions have been largely ignored by the Center for Medicare and Medicaid Services in Washington.

It is our fear that, as currently drafted, AB 213 would offer a similar opportunity for insurers and agents to mount an aggressive campaign to market these plans with little regard for the suitability of the product for the persons being targeted as purchasers.

The Board's Insurance counselors have expressed significant concerns that the consumer protections intended to shield potential purchasers from aggressive attempts to sell unsuitable policies are insufficient as AB 213 is currently written. The exclusive reliance on the NAIC model standards ignores the fact that there may be some standards written into the Wisconsin Insurance Code which are superior to the National models.

In sum, the Board on Aging and Long Term Care has some serious concerns about the passage of AB 213 as currently written. While the proposal may have merit if it is effectively revised to address the concerns that we raise, we urge the Committee to move ahead with caution and to thoroughly examine all of the possible problems that have been identified by the insurance analysts and regulators and the advocates for consumers in the pilot states.

Thank you for your kind attention.

AARP Wisconsin

May 1, 2007

To: The Assembly Committee on Aging and Long-Term Care

From: Gail Sumi, State Issues Advocacy Director – 608.286.6307

Re: AB 213, relating to a Long-Term Care Partnership Program

Good morning and thank you for the opportunity to testify today on AB 213, relating to instituting a Long-Term Care Partnership Program in Wisconsin.

AARP Wisconsin has 805,000 members in Wisconsin some of whom are likely considering whether a long-term care insurance policy might be a wise purchase for them. I want to thank the authors for providing Wisconsinites with another long term care planning tool. AARP is finding that increasingly a four-legged stool applies in retirement – Social Security, pensions and individual savings combined, often continued earnings from employment, and health insurance coverage.

While we support adding this planning tool, we have a few cautions:

- This product is only appropriate for people who anticipate that their income will make them eligible for Medicaid. That is why I commend Representative Strachota and Senator Roessler for offering an amendment requiring insurance agents who sell long-term care Partnership program products to take training specific to the product. We do not want people spending additional money on a product for which they will not receive an enhanced benefit.
    - The AARP Public Policy Institute found that the majority of purchasers in California, Connecticut and Indiana had assets in excess of $350,000. (AARP PPI Fact Sheet attached for your review.) They are unlikely to ever access the enhanced benefit of the Partnership product.
- In general, states should not just assume that enacting a Long-Term Care Insurance Partnership Program will save the Medicaid program money. Again in the attached AARP Public Policy Institute Fact Sheet, you will note that those states that have had the program in place for a period of time have a limited number of people actually receiving the benefit.

I've attached a print out of AARP's website for consumers that include a list of "Key Issues to Review" and "Important Features to Consider."

Thank you for your consideration.

222 West Washington Avenue, Suite 600 | Madison, WI 53703 | toll-free 1-866-448-3611 | 608-251-7612 fax
toll-free 1-877-434-7598 TTY | Erik D. Olsen, President | William D. Novelli, Chief Executive Officer | www.aarp.org/wi

FACT SHEET

Long-Term Care Insurance Partnership Programs

Background – The long-term care insurance (LTCI) partnership program was developed in the 1980s to encourage people who might otherwise turn to Medicaid to finance their long-term care (LTC) to purchase LTCI. If people who purchase qualifying policies deplete their insurance benefits, they may then retain a specified amount of assets and still qualify for Medicaid, *provided they meet all other Medicaid eligibility criteria.* Currently, these programs operate in four states: California, Connecticut, Indiana, and New York. Table 1 illustrates the current number of policies in force and the number of people receiving partnership policy benefits in the participating states.

Table 1

State	Policies in Force	Number Receiving Partnership Benefits
California	64,915	343
Connecticut	30,834	141
Indiana	29,189	83
New York	47,539	642
4 State Total	**172,477**	**1,209**

Source: Government Accountability Office, 2005.

Demographics of Purchasers – Although the partnership program was intended to attract lower- to middle-income Americans (the cohort most likely to spend down to Medicaid), state policyholder surveys indicate that most purchasers have substantial assets. The majority of purchasers in California, Connecticut, and Indiana had assets in excess of $350,000.[1] In contrast, the average person age 55 or over has less than $50,000 in assets.[2] The New York program, unique in that it allows *unlimited* asset protection for purchasers, has primarily attracted higher-income purchasers, because of this feature and its resulting higher premium costs.

[1] California and Connecticut instructed respondents to exclude the value of their homes; Indiana instructed them to include home value.
[2] Excluding home value.

Expansion – The Deficit Reduction Act of 2005 (DRA 05) now allows *all* states the option to enact partnership policies. Policies in these *new* programs must meet specified criteria, including federal tax-qualification, identified consumer protections, and inflation protection provisions.

Compound annual inflation protection will be required for purchasers below age 61, although states can determine the percentage rate (e.g. 3 percent, 5 percent, etc.). "Some level of inflation protection" (not defined) will be required for purchasers between the ages of 61 and 75. Also, DRA 05 requires the U.S. Department of Health and Human Services to develop a reciprocity agreement, enabling purchasers to use their benefits in other partnership states; however, states may opt out of this reciprocity.

At least 21 states, anticipating a change in federal law, already have enacted authorizing legislation. These states are listed in Table 2.

Table 2

States with Partnership Legislation		
Arkansas	Iowa	North Dakota
Colorado	Maryland	Ohio
Florida	Massachusetts	Oklahoma
Georgia	Michigan	Pennsylvania
Hawaii	Missouri	Rhode Island
Idaho	Montana	Virginia
Illinois	Nebraska	Washington

Source: National Association of Health Underwriters Web site, 2006.

Impact of Partnership Programs on Medicaid Spending – Whether the partnership programs will help save the Medicaid program money is a major policy question. Proponents argue that, by deferring the use of Medicaid for those who otherwise would spend down their assets and qualify for benefits, people who purchase partnership policies will reduce Medicaid's spending on LTC.

Others argue that partnership programs will qualify people for Medicaid who otherwise would never have used the program: their own assets would have paid for their LTC costs. Moreover, some argue that, if Medicaid is intended to be a safety net for people with few assets and limited incomes, partnership programs could deplete Medicaid resources by qualifying people for benefits who can, and should, finance their own services. Partnership policies have the potential to save Medicaid dollars if they are purchased by people who would *not* have bought other (non-partnership) policies. If, instead, these policies *replace* LTCI policies that do not include Medicaid asset protection, then they may result in higher Medicaid spending. So far, the data are inconclusive because the programs are still relatively new and few purchasers have begun to use benefits.

Issues and Concerns – With the likely expansion of LTCI partnership programs into additional states, ***consumer education*** is critical. The addition of a partnership option in a growing number of states will add a layer of complexity to the already-difficult process of deciding whether to buy LTCI and, if so, which policy to purchase. While partnership programs allow purchasers to protect a certain level of assets if they deplete their insurance benefits and qualify for Medicaid, many consumers do not understand that Medicaid eligibility is not automatic. To qualify for Medicaid, individuals must meet the state's income and functional eligibility criteria, which may change by the time they apply for Medicaid.

Regarding *income*, the GAO reported that about half or more of the purchasers in three states had average monthly incomes of $5,000 or more. To meet Medicaid's income eligibility, most states require that monthly income not exceed 300 percent of the federal Supplemental Security Income (SSI) amount (300 percent of SSI is $1,809 per month in 2006) or the monthly cost that Medicaid pays for nursing home care (which averaged $3,540 in 2002). While married individuals can protect additional income for a community spouse and qualify for Medicaid, only about 15 percent of nursing home residents are married. As a result, *many who have purchased partnership policies may never qualify for Medicaid because their incomes are too high.*

Another issue is *functional* eligibility. To receive LTCI benefits from a partnership policy, one generally must be cognitively impaired or need assistance with two or more activities of daily living (such as bathing or dressing). To meet Medicaid's functional eligibility criteria for LTC, most states have more restrictive disability criteria, often including medical needs. This may prove to be a problem for purchasers who deplete their partnership benefits and then cannot qualify for Medicaid.

Finally, the *ability to remain at home* is a potential issue for consumers. While consumers express an overwhelming preference to receive LTC services in their homes or in community-based settings, Medicaid beneficiaries have *no entitlement* to receive these benefits. A partnership purchaser who qualifies for Medicaid after depleting his or her insurance benefits may be able to receive services only in a nursing home, depending on the state's eligibility criteria for HCBS and whether there is a waiting list for services.

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March 2006

FACT SHEET

AARP
The power to make it better.

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Insurance

Long-term Care Insurance

Course Section

Long-term care refers to the many services beyond medical care and nursing care used by people who have disabilities or chronic (long-lasting) illnesses. Long-term care insurance helps you pay for these services, which can be very expensive. A policy also ensures that you can make your own choices about what long-term care services you receive and where you receive them.

Ordinary health insurance won't cover it.
People are living longer and longer these days. That's good news, but the flip side of that is there are more years in which there's a risk of serious health problems. And that could literally cost all of your remaining life's savings. Unfortunately, ordinary health insurance policies and Medicare usually do not pay for long-term care expenses. Medicaid, a federal/state health insurance program, will only pay for long-term care if you've already spent most of your savings or other assets. So, there's long-term care insurance.

Long-term care insurance typically covers the cost of:

- Help in your home with daily activities like bathing, dressing, eating and cleaning.
- Community programs, such as adult day care.
- Assisted living services that are provided in a special residential setting other than your own home. These services may include meals, health monitoring, and help with daily activities.
- Visiting nurses.
- Care in a nursing home.

Standard & Poor's Insurance Ratings Service
212-438-2000
www.standardandpoor.com

Additional Resources

For state insurance information, check www.iii.org.

Read a report discussing the pros and cons of women buying long-term care insurance, from the National Center on Women and Aging.

State Health Insurance Assistance Program (SHIP) is a free program that counsels older adults about health insurance-related topics. SHIP counselors can help you decide if you need long-term care insurance. They can also help you read and understand the insurance policy you are thinking of buying. For the SHIP program nearest you, go to www.medicare.gov.

To find out about home and community-based services in your area, call the Eldercare Locator at 800-677-1116.

United Seniors Health Council specializes in consumer health and health insurance issues. The council publishes a newsletter and sells books on long-term care and long-term care insurance.

Partnership Program For Long Term Care Insurance

Executive Summary

Why Automatic 5% Compound Inflation Protection Should Be Required For People Age 60 Or Less

LEGACY SERVICES, INC.

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Contents

(Version 7.04)

Key Partnership Decision - Inflation Protection

A key decision facing states regarding Partnership is inflation protection requirements. This is important because sales of long term care insurance (LTCi) to younger consumers are increasing.

Many policyholders are planning for a need 30-40 years in the future.

Average age of enrollment in workplace programs	47 [1]
Average age of claim	82 [2]

1 – Broker World Magazine, *Group LTCi Survey*, February 2006.
2 – AARP, *Public Policy Institute, #2002-09*, August 2002.

The gap between purchase and claim will grow as consumers buy coverage younger and medical technology extends our lives. Industry analysts predict a minimum of 5% inflation going forward for long term care services (see historical data on the next page).

The extended time frame between purchase and claim combined with rising costs makes inflation protection a critical component of this product. The fear is that many policyholders end up with the future purchase option (FPO) inflation rider which requires drastic premium increases in order for benefits to go up.

Here is language from the new federal bill on Partnership. It says inflation protection will be required as follows:

- *Ages 0 to 60: Compound inflation protection required*
- *Ages 61 to 75: Some form of inflation protection is required (simple permitted)*
- *Age 76+: No requirements on inflation*

Insurance industry representatives are pushing states to accept FPO and other reduced inflation riders for Partnership applicants ages 0 to 60.

In this report we explain the advantages of making Automatic 5% Compound Inflation (Auto 5%) a requirement for ages 0 to 60, which is what the pilot states (CA, CT, IN, NY) have done.

Inflation On LTC Services

	Average Last 4 Years [1]	% of LTCi Claims Dollars Paid [2]
Nursing Home	5.8%	36%
Assisted Living	8.4%	30%
Home Health Care	2.1%	34%

1 - Per MetLife Mature Market Institute surveys (first conducted in 2002)
2 - Per AALTCI claims study for 2006

The data above shows that inflation for LTC services has averaged 5.3% over the past four years.

We believe inflation for LTC services will continue at or above current levels for the following reasons:

Nursing Home Industry Struggles
In recent years 6 of the largest 15 national nursing home chains have filed for bankruptcy. The problem is that Medicaid reimbursement levels are too low to support the costs of the nursing home industry – over 65% of nursing home residents are on Medicaid. By controlling Medicaid reimbursements the government has artificially suppressed inflation in this sector. To maintain quality facilities, nursing homes will undoubtedly need to charge more going forward.

Labor Shortages
The entire health care industry is facing severe labor shortages. Filling staff positions in this competitive environment will require higher wages.

Baby Boomer Demand
As Baby Boomers enter retirement the demand for LTC services will grow significantly. In addition, this group will likely insist on a greater level of service. Both of these factors will push costs up.

An Overview Of Inflation Options

Automatic 5% Compound Inflation Protection (Auto 5%)

This rider compounds benefits 5% annually while premiums remain level (see next page – 'Annual Premium with Auto 5%' column).

Future Purchase Option (FPO)

FPO lets consumers periodically buy additional benefits (equivalent to 5% compounded annually) to keep pace with inflation. Given that policyholders must pay for this extra coverage at their attained age, FPO pricing becomes significantly more expensive over time (see next page – 'Annual Premium with FPO' column). The artificially low initial price of FPO causes many consumers to select that option. Here is a breakdown of inflation options sold (Feb & Jul 2006 issues of *Broker World* magazine).

Benefit Increase Option Distributions

	Group	Individual
Auto 5%	14.7%	42.2%
FPO / No Inflation	82.0%	33.3%
Other	3.3%	24.5%

The group FPO numbers are particularly troubling. The average age of purchase in workplace programs is 47. These people have a long time horizon and need to keep up with inflation. But, as you can see on the next page, FPO premiums skyrocket to the point of being unaffordable.

FPO with Conversion to Auto 5%

Some FPO policies have the option to convert to Auto 5%. However, there is no assurance conversions will be executed by policyholders.

Other Options

Simple, 2x Compound, 3% Compound and 1% Compound offer lower benefit increases than Auto 5% and do not provide the necessary protection against inflation, especially for consumers age 60 and under (see page 7).

Same Coverage – Different Price

Age	Daily Benefit	Premium with Auto 5%	Daily Benefit	Premium with FPO	Daily Benefit	FPO Premium Convert at 65
47	150	827	150	347	150	347
48	158	827	150	347	150	347
49	166	827	150	347	150	347
50	174	827	174	407	174	407
51	183	827	174	407	174	407
52	192	827	174	407	174	407
53	202	827	202	481	202	481
54	212	827	202	481	202	481
55	223	827	202	481	202	481
56	234	827	234	573	234	573
57	246	827	234	573	234	573
58	258	827	234	573	234	573
59	271	827	271	703	271	703
60	285	827	271	703	271	703
61	299	827	271	703	271	703
62	314	827	314	887	314	887
63	330	827	314	887	314	887
64	347	827	314	887	314	887
65	364	827	364	1,158	364	2,400
66	382	827	364	1,158	382	2,400
67	401	827	364	1,158	401	2,400
68	421	827	421	1,567	421	2,400
69	442	827	421	1,567	442	2,400
70	464	827	421	1,567	464	2,400
71	487	827	487	2,218	487	2,400
72	511	827	487	2,218	511	2,400
73	537	827	487	2,218	537	2,400
74	564	827	564	3,289	564	2,400
75	592	827	564	3,289	592	2,400
76	622	827	564	3,289	622	2,400
77	653	827	653	5,058	653	2,400
78	686	827	653	5,058	686	2,400
79	720	827	653	5,058	720	2,400
80	756	827	756	7,811	756	2,400
81	794	827	756	7,811	794	2,400
82 *	834	827	756	7,811	834	2,400
83	876	827	876	12,064	876	2,400
84	920	827	876	12,064	920	2,400
85	966	827	876	12,064	966	2,400
86	1,014	827	1,014	18,337	1,014	2,400
87	1,065	827	1,014	18,337	1,065	2,400
88	1,118	827	1,014	18,337	1,118	2,400
89	1,174	827	1,174	27,872	1,174	2,400
90	1,233	827	1,174	27,872	1,233	2,400

Policy Configuration: $150 Daily Benefit, 3-Year Benefit Period, 90 Day Elimination

* 82 is the average age at which policyholders access long term care services (AARP, August 2002)

FPO Policyholders Are Not Taking Benefit Increases

In a Legacy survey of hundreds of FPO policyholders we found that over 50% were not taking their benefit increases. Below is the loss of purchasing power they will face:

Skipping FPO Increases Causes Loss of Purchasing Power

	Nursing Home Cost	Daily Benefit	Purchasing Power Lost
Today	* 180	180	0%
Skip 10 years	292	180	-38%
Skip 20 years	478	180	-62%
Skip 30 years	779	180	-77%
Skip 40 years	1,269	180	-86%

* Based on average daily rates for private and semi-private rooms in a nursing home per The MetLife Market Survey of Nursing Home and Home Care Costs for 2006, conducted by MetLife's Mature Market Institute. Future costs are projected at a 5% rate of inflation.

Having Auto 5% for every Partnership applicant age 60 and under eliminates the problem of consumers forgetting to take their increases.

Auto 5% Affordability Myth

A common theory is that some working age people can't afford the 'higher' cost of Auto 5% so they should buy FPO. Ironically, affordability is why Auto 5% should be standard for people age 60 or less. If a consumer cannot afford an Auto 5% policy today how will they be able to afford the skyrocketing costs of the increases?

Some insurance people say that if an FPO policyholder can't afford the increases at least they have some insurance which is better than nothing. But consumers who buy FPO because they cannot afford Auto 5% typically have little in retirement assets. Most should not buy any LTCi and instead save whatever extra money they have.

FPO With Conversion – Waiting Is Expensive

Advocates of this option say people can start with a 'cheaper' FPO policy and convert to Auto 5% when they are done paying for things like their children's education.

The reality for most people is that expenses never go down since they typically need to increase their savings rate for retirement once their children are grown. Converting later in life is expensive and forfeits the price savings of buying Auto 5% younger.

Some are suggesting that FPO and FPO with Conversion be considered Partnership qualified as long as policyholders accept the benefit/premium increases. This idea is unfair because of the insurance industry's unwillingness to give full disclosure on how FPO premiums go up.

Consumers will be enticed to buy because of the low initial FPO price and the advantage of Partnership. Because many will be unable to afford the escalating premiums, they'll stop taking the increases and lose their Partnership qualification.

Lower Compounding Rates Are Insufficient

The statistics on page 3 illustrate that the costs for long term care services are rising at 5% or more per year. If young consumers are allowed to buy Partnership policies with 3% or 1% compound inflation their benefits won't keep up, resulting in a premature reliance on Medicaid.

	Projected Cost At 5% Inflation	Daily Benefit with 3% Compound	Daily Benefit with 1% Compound
Today	180	180	180
In 10 years	292	242	200
In 20 years	478	324	220
In 30 years	779	436	240
In 40 years	1,269	586	265

LTCi Partnership Programs
And Use Of CPI Inflation Protection

Carriers are proposing inflation protection tied to the Consumer Price Index (CPI) for LTCi Partnership applicants under age 61.

The CPI is a measure of the average change over time in the prices paid by urban consumers for a composite of consumer goods and services.

	Last 80 years	Last 10 years
Historical Rate of CPI	3.08%	2.54%

Per Bureau of Labor Statistics (www.bls.gov/cpi)

We believe CPI will remain at or below historical levels for these reasons:

Imports
The United States imports an increasing amount of goods and services from countries with low-priced labor like China and India.

Federal Reserve Policy
Since the 1970's the Federal Reserve's number one priority has been to regulate inflation. Any indication of inflation and the Federal Reserve tightens money supply to reduce the upward movement of prices.

Technology
Increasingly our economy is linked to technology which becomes less expensive every year.

CPI And Partnership

We believe CPI is likely to remain well below 5% and inflation on LTC services will run 5% or more (see page). As a result, we do not feel CPI provides enough inflation protection for Partnership policyholders under age 61. On the next page we compare a CPI policy (using the 80-year index of 3.1%) and an Automatic 5% Compound (Auto 5%) policy. At the average age of claim the Auto 5% policy provides 80% more in benefits.

Benefits Fall Short If CPI Remains At Historical Average

Age	Daily Benefit with Auto 5%	Daily Benefit with CPI
47	150	150
48	158	155
49	166	160
50	174	165
51	183	170
52	192	175
53	202	180
54	212	186
55	223	192
56	234	198
57	246	204
58	258	210
59	271	217
60	285	224
61	299	231
62	314	238
63	330	245
64	347	253
65	364	261
66	382	269
67	401	277
68	421	286
69	442	295
70	464	304
71	487	313
72	511	323
73	537	333
74	564	343
75	592	354
76	622	365
77	653	376
78	686	388
79	720	400
80	756	412
81	794	425
82	834	438
83	876	452
84	920	466
85	966	480

* 82 is the average age at which policyholders access long term care services (AARP, August 2002)

Existing Partnership Programs

Below we list inflation protection requirements for younger applicants who want Partnership policies in the pilot states (CA, CT, IN, NY).

California

Automatic 5% Compound is required for ages 70 and under.

Connecticut

Automatic 5% Compound is required for applicants under age 65.

Indiana

Automatic 5% Compound is required for all Partnership policies.

New York

Automatic 5% Compound is required for applicants under age 80.

Final Thoughts

Unfortunately, the new federal law does not specifically define the meaning of compound inflation. We encourage states considering new Partnership programs to consult with pilot states on this matter.

In order to protect consumers and the integrity of your program new states may have to add language to state statutes specifying that "compound inflation" means Automatic 5% Compound for all policies.

Since federal guidelines require compound inflation for ages 0-60, creating this definition would make Automatic 5% Compound standard in your Partnership policies for younger enrollees.

About Legacy Services, Inc.

Legacy Services, Inc. is an independent agency that specializes in workplace programs for long term care insurance. We have written this document to promote conversation on how inflation protection should be treated in Partnership programs.

For questions/comments, contact:

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NAIFA
WISCONSIN

NATIONAL ASSOCIATION OF INSURANCE AND FINANCIAL ADVISORS – WISCONSIN

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May 1, 2007

Assembly Aging and Long Term Care Committee:

Testimony in Support of AB-213

Attached is testimony on behalf of the insurance professional associations listed below in favor of Assembly Bill 213. We urge Wisconsin to move forward to implement a Long Term Care Partnership program for Wisconsin citizens and we stand ready to be a resource of information and guidance on this matter.

- National Association of Insurance and Financial Advisors - Wisconsin
- The Professional Insurance Agents of Wisconsin
- The Wisconsin Health Underwriters
- The Independent Insurance Agents of Wisconsin

Sincerely,

Susan K. Linck

Susan K. Linck, CAE
Executive Vice President

2007 ASSEMBLY BILL 213
Testimony Before the Assembly Aging & Long Term Care Committee
John F. Townsend, Chair
May 1, 2007

Cindy L. Bong
Certified in Long Term Care, Life Underwriters Training Council Fellow
Chair, NAIFA Wisconsin Long Term Care Partnership Task Force
David Duffrin
Certified in Long Term Care

Representative Townsend and members of the committee, my name is Cindy Bong and it is my honor to represent the National Association of Insurance and Financial Advisors in Wisconsin. Our membership includes 1,600 career insurance and financial advisors statewide, and I am the Chair of the Association's Long Term Care Partnership Task Force. With me is Dave Duffrin, owner of Northern States Brokerage, a long term care brokerage agency in Brookfield. We also testify today on behalf of the Professional Insurance Agents of Wisconsin, The Independent Insurance Agents of Wisconsin and the Wisconsin Association of Health Underwriters. Together, these four professional societies represent 10,000 licensed career professionals in Wisconsin. These professionals will be the ground troops that implement the Long Term Care Partnership Program in Wisconsin. They are the licensed professionals who will work with citizens to educate them and put the protection in place for our citizens.

Placing long term care insurance for a client is, without exception, a long term education and counseling process. It is not a decision people take lightly or make quickly. I may conduct two or three needs assessment and educational meetings with clients before I believe they are ready to purchase long term care insurance. Throughout this process I am gathering facts about their health, their financial status and retirement plan, their family goals, their children's capacity for

care giving, their continuing responsibilities as parents and grandparents so that I can properly recommend a product for them. This same counseling process would continue under the partnership program. Professionals, licensed by the office of the Commissioner of Insurance, and having special education in this product, would assure that accurate and complete information is submitted so that the proper coverage is put in place. They may also conduct a periodic review and updating of clients' plans and coverage and ultimately could assist with claim documentation, claim processing and ombudsman activities with service providers, the government, family members and the insurer.

I can tell you from personal experience that middle market individuals and couples are hungry for a tool and a rationale that will protect their dignity and provide personal choices in their elder years, both in a home-care environment and in a facility. In many cases, the partnership program is this tool. It could be just the gentle incentive many need to take the step of insuring their own future with a partnership policy. And, as you have heard, this could save the state millions of dollars yearly as insurers pay claims that would otherwise be Medicaid claim dollars.

We would like to emphasize that the federal law that now authorizes partnership programs in all states also requires significant agent education targeted specifically to this product before a licensed intermediary, even a long-experienced one, can sell policies under the federally authorized partnership program. AB-213 includes this requirement. The agent associations, working with the Office of the Commissioner of Insurance stand ready to make sure that this

education is widely available so that trained, licensed professionals are available across the state. In most states, this requirement is evolving to be 8 hours of study. We recommend Wisconsin stay with the national norm in order to maximize the number of options available to licensed personnel for this training. Training programs currently exist that fulfill this requirement and we would assure that they are available widely in Wisconsin on a timely basis.

In summary, we want the legislature to know that the people who will ultimately be responsible for delivering this program to interested Wisconsin citizens are ready, willing and able to do it. In this regard, we encourage Governor Doyle to bring Wisconsin into the "Own Your Future" campaign along with the dozens of other states whose citizens have received excellent, no-cost information about long term care insurance generally. This will get the word out and begin the education process going for Wisconsinites.

Thank you and we would be glad to answer any questions.

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National Association of Insurance and Financial Advisors – Wisconsin

Own Your Future Campaign

Summary: NAIFA urges the Governor to get Wisconsin included in the "Own Your Future Campaign" to help bring Wisconsin adults a sense of urgency about the importance of planning for their own elder care and to bring them sound information and credible resources on this important subject.

Status: The "Own Your Future" Long-Term Care Awareness Campaign is a joint federal-state initiative to increase awareness among the American public about the importance of planning for future long-term care needs. It is a campaign supported by each participating state's Governor, targeted to households with members between the ages of 45 to 70.

The Letter and Press Conference

A letter discussing the importance of long-term care planning, signed by the Governor, is sent to households in the targeted range. Another key component of the "Own Your Future" Campaign is a Governor's press conference to launch the Campaign. The press conference is held concurrent with the mailing of the Governor's letter. The purpose of the press conference is to generate local media interest in the Campaign and reinforce the message being sent to targeted households in the letter from the Governor. Over the last three years, the Department of Health and Human Services (HHS) has worked with the National Governors Association (NGA) and individual state governors to launch "Own Your Future" campaigns in nine states.

Phase I was launched in January 2005 in 5 states: Arkansas, Idaho, Nevada, New Jersey and Virginia. The Governors of these states sent letters to 2.1 million households with members between the ages 50 and 70. A Long-Term Care Planning Kit was offered which featured information about ways to plan ahead, legal issues to consider, and how to assess private financing options. The response rate to campaign was about 8% across the five states. *Individuals from all demographic segments within the target market responded to the Campaign message.*

Phase II began in January 2006 with 4 additional states – Kansas, Maryland, Rhode Island, and Washington.

Phase III was just launched in Georgia, Michigan, Nebraska, South Dakota and Texas.

Beyond Expectations

The response by consumers to the "Own Your Future" campaign has exceeded expectations, both in terms of consumer interest and in terms of initiating long-term care planning actions. Based on this success, Congress provided additional support for long-term care education

initiatives by establishing the National Clearinghouse for Long-Term Care Information under Section 6021 (d) of the Deficit Reduction Act of 2005.

The Clearinghouse
The Clearinghouse, located at www.longtermcare.gov, provides education to consumers on long-term care basics, long-term care insurance (including Partnership programs), other private financing options, and Medicaid.

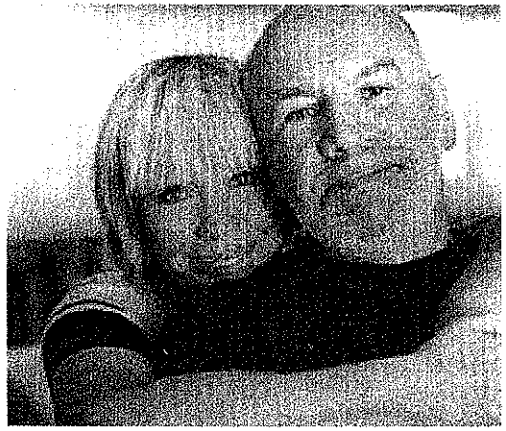
A "Call for Proposals" was released in May 2006 to solicit applications from Governors for participation in Phase III of the "Own Your Future" campaign, which will be supported by the National Clearinghouse for Long-Term Care Information. Core campaign activities in states selected for participation in Phase III are funded by HHS. States are encouraged to provide complementary activities.

Phase IV Additional states will be added to the "Own Your Future" Campaign, based on their response to a RFP that will be issued this spring. As the success of the campaign in other states becomes more widely known there will be strong competition for campaign dollars. States will be evaluated on the strength and creativity of their applications and how well they are able to leverage the federal dollars provided.

The agent associations in Wisconsin are ready willing and able to assist the Administration in making the most of the "Own Your Future" campaign in Wisconsin. Combined, our coalition with the Independent Insurance Agents of Wisconsin and the Professional Insurance Agents of Wisconsin, represents nearly 10,000 licensed professionals in this state who understand the urgency of this matter.

"After reading the booklet, I realized that I had some decisions to make for my future. Taking action and planning ahead were the best ways for me to take charge."

Order a **free kit** from the U.S. Department of Health & Human Services that explains how to get started planning for long-term care. The kit includes a planning guide and an audio CD with straight talk about how to prepare for the years ahead. Own your future. Order the kit. And begin making plans.



Call 1-866-PLANLTC (1-866-752-6582) to request your long-term care planning kit.

TTY users should call 1-877-486-2048.

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Name _____

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If you know someone else who would like this free kit, please give us their name and address:

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Address _____

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Own Your Future

Planning for long-term care

- Planning options for your future
- Understanding long-term care financing
- FREE information kit offer

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Long-term care...is about living well.

If you are 50 or older, you're used to making important decisions about the way you live. And the best time to start deciding your future is now.

Sixty percent of older Americans will need help with health and personal needs and activities of daily living as they grow older. Over time these services can be very expensive. Planning how you will afford these services is an important part of owning your future. Paying for long-term care does not have to mean losing control over your life. Plan wisely. Know your options. Act now.

Send or call for your FREE Long-Term Care Planning Kit.

To help you make decisions that are best for you, the U.S. Department of Health & Human Services now offers a kit to help you plan for your future.

Let this kit help you:

Plan early and wisely: Learn about resources available to help you design financial and legal plans – and more.

"I'll admit it. I never really thought about long-term care until I realized how important it is to plan ahead for the future. So I started doing my homework and making plans."

Know your options: Get advice on shopping for long-term care insurance.

Take action: This kit has steps you can take now to begin owning your future.

Can I really own my future?

With the right plan and information, you can build a firm foundation for the years that lie ahead. This kit can help you get started.

Where do I begin?

The U.S. Department of Health & Human Services has developed a guidebook with useful information including a worksheet for evaluating your long-term care insurance options. In addition, this free kit includes an audio CD that presents stories of people with long-term care planning experiences.

Just return the postage-paid card provided below, visit *www.aoa.gov/ownyourfuture* on the web, or call 1-866-PLANLTC (1-866-752-6582) to request your long-term care planning kit. TTY users should call 1-877-486-2048.

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Long-Term Care Insurance Partnership Programs

Background – The long-term care insurance (LTCI) partnership program was developed in the 1980s to encourage people who might otherwise turn to Medicaid to finance their long-term care (LTC) to purchase LTCI. If people who purchase qualifying policies deplete their insurance benefits, they may then retain a specified amount of assets and still qualify for Medicaid, *provided they meet all other Medicaid eligibility criteria.* Currently, these programs operate in four states: California, Connecticut, Indiana, and New York. Table 1 illustrates the current number of policies in force and the number of people receiving partnership policy benefits in the participating states.

Table 1

State	Policies in Force	Number Receiving Partnership Benefits
California	64,915	343
Connecticut	30,834	141
Indiana	29,189	83
New York	47,539	642
4 State Total	**172,477**	**1,209**

Source: Government Accountability Office, 2005.

Demographics of Purchasers – Although the partnership program was intended to attract lower- to middle-income Americans (the cohort most likely to spend down to Medicaid), state policyholder surveys indicate that most purchasers have substantial assets. The majority of purchasers in California, Connecticut, and Indiana had assets in excess of $350,000.[1] In contrast, the average person age 55 or over has less than $50,000 in assets.[2] The New York program, unique in that it allows *unlimited* asset protection for purchasers, has primarily attracted higher-income purchasers, because of this feature and its resulting higher premium costs.

[1] California and Connecticut instructed respondents to exclude the value of their homes; Indiana instructed them to include home value.
[2] Excluding home value.

Expansion – The Deficit Reduction Act of 2005 (DRA 05) now allows *all* states the option to enact partnership policies. Policies in these *new* programs must meet specified criteria, including federal tax-qualification, identified consumer protections, and inflation protection provisions.

Compound annual inflation protection will be required for purchasers below age 61, although states can determine the percentage rate (e.g. 3 percent, 5 percent, etc.). "Some level of inflation protection" (not defined) will be required for purchasers between the ages of 61 and 75. Also, DRA 05 requires the U.S. Department of Health and Human Services to develop a reciprocity agreement, enabling purchasers to use their benefits in other partnership states; however, states may opt out of this reciprocity.

At least 21 states, anticipating a change in federal law, already have enacted authorizing legislation. These states are listed in Table 2.

Table 2

States with Partnership Legislation		
Arkansas	Iowa	North Dakota
Colorado	Maryland	Ohio
Florida	Massachusetts	Oklahoma
Georgia	Michigan	Pennsylvania
Hawaii	Missouri	Rhode Island
Idaho	Montana	Virginia
Illinois	Nebraska	Washington

Source: National Association of Health Underwriters Web site, 2006.

Impact of Partnership Programs on Medicaid Spending – Whether the partnership programs will help save the Medicaid program money is a major policy question. Proponents argue that, by deferring the use of Medicaid for those who otherwise would spend down their assets and qualify for benefits, people who purchase partnership policies will reduce Medicaid's spending on LTC.

Others argue that partnership programs will qualify people for Medicaid who otherwise would never have used the program: their own assets would have paid for their LTC costs. Moreover, some argue that, if Medicaid is intended to be a safety net for people with few assets and limited incomes, partnership programs could deplete Medicaid resources by qualifying people for benefits who can, and should, finance their own services. Partnership policies have the potential to save Medicaid dollars if they are purchased by people who would *not* have bought other (non-partnership) policies. If, instead, these policies *replace* LTCI policies that do not include Medicaid asset protection, then they may result in higher Medicaid spending. So far, the data are inconclusive because the programs are still relatively new and few purchasers have begun to use benefits.

Issues and Concerns – With the likely expansion of LTCI partnership programs into additional states, ***consumer education*** is critical. The addition of a partnership option in a growing number of states will add a layer of complexity to the already-difficult process of deciding whether to buy LTCI and, if so, which policy to purchase. While partnership programs allow purchasers to protect a certain level of assets if they deplete their insurance benefits and qualify for Medicaid, many consumers do not understand that Medicaid eligibility is not automatic. To qualify for Medicaid, individuals must meet the state's income and functional eligibility criteria, which may change by the time they apply for Medicaid.

Regarding *income*, the GAO reported that about half or more of the purchasers in three states had average monthly incomes of $5,000 or more. To meet Medicaid's income eligibility, most states require that monthly income not exceed 300 percent of the federal Supplemental Security Income (SSI) amount (300 percent of SSI is $1,809 per month in 2006) or the monthly cost that Medicaid pays for nursing home care (which averaged $3,540 in 2002). While married individuals can protect additional income for a community spouse and qualify for Medicaid, only about 15 percent of nursing home residents are married. As a result, *many who have purchased partnership policies may never qualify for Medicaid because their incomes are too high.*

Another issue is *functional* eligibility. To receive LTCI benefits from a partnership policy, one generally must be cognitively impaired or need assistance with two or more activities of daily living (such as bathing or dressing). To meet Medicaid's functional eligibility criteria for LTC, most states have more restrictive disability criteria, often including medical needs. This may prove to be a problem for purchasers who deplete their partnership benefits and then cannot qualify for Medicaid.

Finally, the *ability to remain at home* is a potential issue for consumers. While consumers express an overwhelming preference to receive LTC services in their homes or in community-based settings, Medicaid beneficiaries have *no entitlement* to receive these benefits. A partnership purchaser who qualifies for Medicaid after depleting his or her insurance benefits may be able to receive services only in a nursing home, depending on the state's eligibility criteria for HCBS and whether there is a waiting list for services.

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March 2006

FACT SHEET

Northwestern Long Term Care Insurance Company™

A Northwestern Mutual Company

April 30, 2007

Representative John Townsend
Chair, Assembly Committee on Aging and Long Term Care
Room 22 West
State Capitol
Madison, WI 53708

Dear Chairman Townsend,

Northwestern Long Term Care Insurance Company is a wholly owned subsidiary of The Northwestern Mutual Life Insurance Company headquartered in Milwaukee and celebrating its 150th anniversary. NLTC has become a long-term care insurance (LTCi) industry leader since introducing our policy in August, 1998. We currently rank as the fourth largest seller of LTCi in Wisconsin and the fifth largest in the country.

As a company, Northwestern Mutual's products and services are focused on protection against outliving one's assets, dying too soon or becoming disabled. We introduced the LTCi product because it fits well with the issues associated with a severe disability that requires chronic care, and is often related to living to an old age.

We have worked to develop a long term care product that provides meaningful benefits at a fair price. As the provider community and our policyowners' needs have evolved, we've enhanced and clarified our policy for both new and existing policyowners. In fact, many of the first people who bought our long-term care insurance policies have received policy enhancements four separate times. Furthermore, their net cost for coverage has actually gone down, as we declared our first long term care dividend for 2007 and expect that dividend to grow in the coming years.

Public programs for long term care are limited in the protections they provide. Medicare pays for a portion of nursing home costs, but only up to 100 days and only if certain requirements are met. Medicaid, the joint federal and state means-tested program, pays for care for individuals with limited assets and income. The Veterans Administration bases its qualification criteria primarily on service-related injuries and disabilities, or a means test. There are no government programs that pay for most long-term care services unless the person is at or near poverty.

Given current budget constraints, it seems unlikely that the federal government will expand programs to pay for individual's long-term care needs. In 1996, they clarified the deductibility of premiums and tax-free benefits for most long-term care insurance policies while making Medicaid qualification more difficult. More recently, last year's Deficit Reduction Act allowed states to offer Partnership policies and closed many of Medicaid's qualification loopholes. Later in the year, the Pension Protection Act enhanced the ability for life insurance and annuities to include long-term care insurance benefits. People are being directed to take personal responsibility for their long-term care needs.

The state of Wisconsin has the opportunity to assist citizens with this increased responsibility through the adoption of the Partnership Plans. According to a recent survey, such plans encourage people to buy LTCi who otherwise would not have purchased coverage. If in the rare instance that they exhaust the benefits in the Partnership Policy and continue to need care, they are able to retain some of their hard-earned assets and still qualify for Medicaid to pay for their care.

The Partnership Plan is truly a budget neutral method to help the middle-class without impacting other citizens. By having such plans in place, Medicaid is pushed to the end of the claim rather than risking having to provide for services up front. In the worst case, Medicaid only needs to pay for services beyond the period that a resident's assets would have been able to cover, as it does today.

The affluent will not benefit from a Partnership because they will not meet Medicaid's income limits. This program will lessen the impact of growing income inequality in Wisconsin, and allow retention of hard-earned assets with the opportunity to pass the assets on to younger generations. It will also reduce the incentive to "game" the Medicaid qualification system.

Given the facts regarding long-term care insurance and the opportunities to provide middle-class Wisconsin citizens with affordable protection, Northwestern Mutual strongly encourages the state to adopt a Partnership Plan as good public policy for its residents.

Sincerely,

David Simbro

David Simbro
Vice President, Long Term Care

cc: Committee members